

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-06 FRB-03 INR-07 IO-10 NEA-09 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 INT-05

AGR-05 SSO-00 INRE-00 GSA-01 NSCE-00 /084 W

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TO SECSTATE WASH DC IMMEDIATE 6504

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E.O. 11652: N/A

TAGS: ETRD, OECD

SUBJECT: XCSS TASK FORCE ON RAW MATERIALS

REF: OECD 8385

1. SUMMARY: THREE DAY (APRIL 9-11) WORKING SESSION OF GROUP OF EXPERTS FROM EIGHT COUNTRIES AND EC, WITH MEMBERS OECD SECRETARIAT STAFF, WAS MARKED BY GENERAL COMMUNITY VIEWS AMONG EXPERTS IN THEIR COMMENTS AND CRITIQUE OF SECRETARIAT'S DRAFT PAPER. EXPERTS ATTACHED DIFFERENT EMPHASIS TO VARIOUS POINTS BUT THERE WERE NO REPEAT NO SIGNIFICANT DIFFERENCES OF SUBSTANCE. ALL EXPRESSED DISAGREEMENT WITH STRONG BIAS THROUGHOUT PAPER LEADING TO CONCLUSION OF NEED FOR URGENT OR EMERGENCY ACTION FOR EXTENSIVE STOCKPILING OF RAW MATERIALS TO DEAL WITH PROBLEMS OF PRICE LEVELS DISASTROUS FOR PRODUCERS, AND THE THREAT OF UNDERINVESTMENT OR DISINVESTMENT WITH CONSEQUENT LATER SHORTAGES. US EXPERT POSED QUESTION AS TO WHAT SPECIFIC RAW MATERIALS WERE CONSIDERED TO REQUIRE URGENT ACTION. SECRETARIAT AND GROUP LISTED COPPER, WOOL, RUBBER, LEAD, ZINC, TIN AND TUNGSTEN,
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NOTING THAT TIN BEING ADEQUATELY DEALT WITH IN TIN

AGREEMENT NEGOTIATIONS. QUESTION AND ANSWER HELPED SHARPEN FOCUS OF DISCUSSION ON SPECIFIC COMMODITY PROBLEMS RATHER THAN MORE VAGUE GENERALITIES. SECRETARIAT WILL COMPLETELY REDRAFT AND REORGANIZE PAPER IN LIGHT OF EXPERTS' COMMENTS. PAPER SCHEDULED FOR "PRE-DISCUSSION" BY TRADE COMMITTEE APRIL 30 AND WILL THEN GO TO XCSS MEETING MAY 6 AND 7 WITH SUCH WRITTEN OR ORAL COMMENTS TRADE COMMITTEE WISHES TO MAKE. END SUMMARY

2. INFORMALITY OF EXPERTS' MEETING WAS STRESSED BY CHAIRMAN AT OPENING SESSION. DISCUSSION WAS ENTIRELY IN ENGLISH. EXPERTS WERE AS LISTED REFTEL, WITH DELETION MANO (JAPAN) AND MAYNELL (EC) AND ADDITION D.J. GATES (AUSTRALIAN HC, LONDON) AND JOHN J. INGERSOLL (US). AT START, US DEL REQUESTED AND RECEIVED CLARIFICATION THAT PAPER BEING CONSIDERED AND EVENTUALLY PRESENTED TO XCSS WAS SECRETARY GENERAL'S PAPER, NOT EXPERTS' PAPER. JAPANESE EXPERT RAISED SAME QUESTION LATER AND EMPHASIZED POINT EXPERTS SERVING IN INDIVIDUAL CAPACITIES AND NOT REPEAT NOT SPEAKING FOR GOVERNMENTS. ALL EXPERTS CONTRIBUTED ABOUT EQUALLY TO DISCUSSION THROUGHOUT.

3. APART FROM GENERAL OBJECTION TO SLANTED NATURE OF PAPER, PREJUDGING CONCLUSIONS, AND NUMEROUS INSTANCES OF "COLORED" DRAFTING, SEVERAL SUBSTANTIVE ELEMENTS GAVE RISE TO LENGTHY DISCUSSION. FRG EXPERT PARTICULARLY QUESTIONED VALIDITY OF ASSUMPTIONS REGARDING UNDERINVESTMENT AS IMMEDIATE PROBLEM, POINTING OUT NUMEROUS LARGE NEW INVESTMENT PROJECTS BEING LAUNCHED BY LDC PRODUCING COUNTRIES AND BY DEVELOPED COUNTRIES AND PRIVATE FIRMS. FRENCH EXPERT EMPHASIZED IMPORTANCE OF LDC "SOVEREIGNTY" ASSERTIONS, NATIONALIZATIONS, ETC. AS OBSTACLE TO DIRECT PRIVATE INVESTMENT IN THEIR COUNTRIES AND NEED FOR ASSURING FAVORABLE INVESTMENT CLIMATE. JAPANESE EXPERT RECOGNIZED FUTURE UNDERINVESTMENT AS POTENTIAL PROBLEM BUT ONE OF LONG-TERM NATURE WHICH MUST BE SEPARATED FROM SHORT-TERM COMMODITY PROBLEMS. PLESSZ (SECRETARIAT) NOTED IMPORTANCE OF ADEQUATE INVESTMENT IN PROCESSING FACILITIES AS WELL AS EXTRACTION LIMITED OFFICIAL USE

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OPERATIONS, CITING LACK THEREOF AS MAJOR FACTOR IN 1974 SHORTAGE AND PRICE BOOM.

4. CONSENSUS OF EXPERTS WAS THAT PRODUCER CARTELS DO NOT REPEAT NOT POSE SERIOUS THREAT BUT THAT THERE IS POTENTIAL FOR SHORT-TERM MARKET DISRUPTION IN TIMES OF TIGHT SUPPLY-DEMAND BALANCE. GENERALLY AGREED THAT MOST ELEMENTS OF RAW MATERIALS TRADE PROBLEMS ARE NOT AT ALL

NEW, BUT NEW FACTORS INCLUDE: INCREASING ROLE OF PRODUCING LDC GOVERNMENTS IN TAKING OVER OR CONTROLLING EXPLOITATION OF THEIR RESOURCES; INCREASING INTEREST OF LDC PRODUCERS IN DOWNSTREAM PROCESSING; CONSEQUENTLY HEIGHTENED RISK INVOLVED FOR INDUSTRIALIZED COUNTRY INVESTMENT IN LDC RAW MATERIALS PRODUCTION (IN FACE OF POPULAR CRITICISM OF "HIGH" PROFITS WHICH ARE NEEDED

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TO COMPENSATE FOR HIGHER RISKS); DISTORTIONS RELATED TO MONETARY UNCERTAINTY; ASSYMMETRIC EFFECTS OF WORLDWIDE INFLATION; THE TRAUMATIC EFFECTS OF THE WIDESPREAD PHYSICAL SHORTAGES AND HIGH PRICES OF 1974; AND THE POLITICIZATION OF COMMODITY PROBLEMS BY DEVELOPING COUNTRIES IN THE INTERNATIONAL ARENA.

5. AT BEGINNING OF SUMMARY OF DISCUSSION TOWARD END OF SESSION US EXPERT ASKED WHAT SPECIFIC RAW MATERIALS MIGHT BE CONSIDERED AS REQUIRING URGENT, EMERGENCY ACTION. AFTER SOME BRIEF SOUL SEARCHING, PLESSZ (SECRE-

TARIAT) LISTED COPPER, WOOL, RUBBER, LEAD AND TIN, NOTING THAT TIN DEALT WITH IN TIN AGREEMENT NEGOTIATIONS. AUSTRALIAN SUGGESTED ADDING ZINC AND US EXPERT SUGGESTED POSSIBLE ADDITION OF TUNGSTEN (BECAUSE PRODUCERS MOUNTING PRESSURE FOR AGREEMENT THEREON). THERE WERE NO OTHER NOMINATIONS. IN RESPONSE TO QUESTION, AUSTRALIAN AGREED THAT WOOL IS CERTAINLY IN A DEPRESSED STATE, WITH MOUNTING STOCKS AND CUTS IN SHEEP NUMBERS (I.E. DISINVESTMENTS). WITH TONGUE IN CHEEK HE OPINED THAT LIMITED OFFICIAL USE

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AUSTRALIAN GOVT WOULD PROBABLY WELCOME OECD MEMBERS UNDERTAKING TO RELIEVE GOA OF FINANCIAL BURDEN OF CARRYING HUGE SURPLUS STOCKS. ALL AGREED THAT SEVERAL OTHER RAW MATERIALS WERE BESET BY PROBLEMS OF ONE SORT OR ANOTHER BUT NOT SEEMINGLY OF AN EMERGENCY NATURE CALLING FOR URGENT ACTION.

6. SECRETARIAT, HAVING TAKEN NOTE OF DISCUSSION AND POINTS MADE BY EXPERTS GROUP, WILL COMPLETELY REWORK DRAFT PAPER, SHORTENING IT SUBSTANTIALLY, AND HAVE IT READY FOR APRIL 30 TRADE COMMITTEE MEETING. TRADE COMMITTEE WILL NOT REPEAT NOT REVISE PAPER BUT MAY WISH SUBMIT ORAL OR WRITTEN COMMENTS ON IT TO XCSS MAY 6-7. ACCEPTABILITY OF PAPER IN FINAL FORM WILL DEPEND ON EXTENT IT ACCURATELY REFLECTS EXPERTS' VIEWS. PURPOSE OF PAPER IS TO PROVIDE BASIS FOR POSSIBLE DECLARATION ON COMMODITIES PROBLEMS WHICH SECRETARY GENERAL IS EXPECTED PROPOSE BE MADE AT SUBSEQUENT OECD MINISTERIAL MEETING.
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